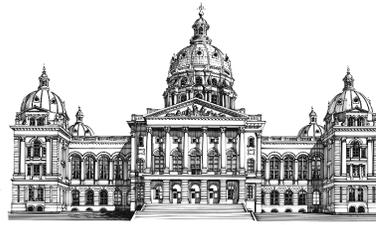


Iowa Legislative Fiscal Bureau

Dennis Prouty
(515) 281-5279
FAX 281-8451



State Capitol
Des Moines, IA 50319
November 5, 1992

Trends And Issues In Federal Funding

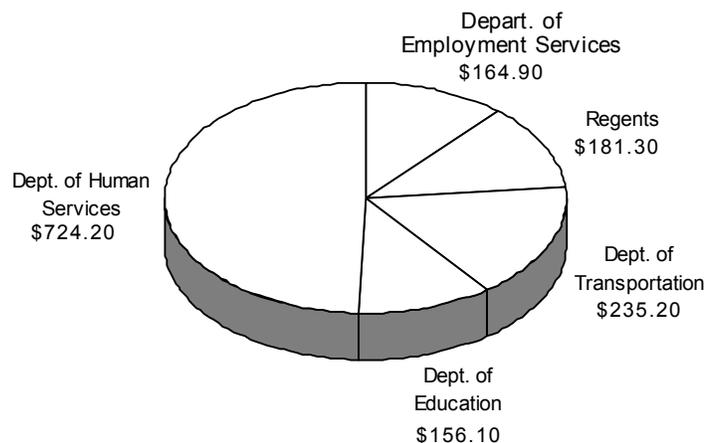
ISSUE

Overview of recent trends in federal funding received by Iowa and potential for increasing the amount of funding received in the future.

AFFECTED AGENCIES

All State departments either currently receive federal funds or have the potential to receive federal funding. The estimated total federal funding received in State Fiscal Year (SFY) 1992 is \$1.7 billion. The following chart presents the 5 State departments that are the largest recipients of federal funding, and the estimated amount received by each in SFY 1992.

MAJOR FEDERAL FUND RECIPIENTS
(in millions)



BACKGROUND

The amount of federal outlays in Iowa has increased by 75.9% between Federal Fiscal Year (FFY) 1982 and FFY 1992. In FFY 1982 outlays were \$1.0 billion, while in FFY 1992 they were \$1.8 billion, for an increase of \$800.0 million.

- Most of the increase (68.9% of the total) was in funding from the Department of Health and Human Services (\$528.3 million or a 150.2% increase). This was primarily due to increased spending for entitlement programs (such as Aid to Families

with Dependent Children (\$427.1 million) and Medical Assistance (\$35.2 million)), and for Foster Care (\$10.3 million) and Head Start (\$10.0 million).

- Funding from the Department of Agriculture increased \$127.6 million (76.4%). This was primarily due to increased spending for Food Stamps (\$66.0 million), School Meals (\$22.7 million), Women, Infants, and Children nutrition assistance (\$16.2 million), and Child Care Food (\$12.8 million).
- Funding from the Department of Education increased by \$100.0 million (77.0%). This was primarily due to increased spending for Pell Grant student aid (\$49.1 million), Handicapped Education (\$13.9 million), and Rehabilitative Education (\$11.1 million).

Since 1990 the General Assembly has line-item appropriated federal funds by funding source for an increasing number of departments. In the 1992 Legislative Session, SF 2366 made line-item appropriations of federal funds to 6 departments: Public Safety, Public Health, Human Services, Economic Development, Transportation, and Education.

CURRENT SITUATION - LEGISLATIVE ACTION

The President signed FFY 1993 federal appropriations bills on October 6. Federal Funds Information for States (FFIS) is currently calculating the impact of the legislation upon Iowa.

The following discretionary programs will receive major increases in funding over FFY 1992 levels:

- Head Start
- Women, Infants and Children (WIC) Supplemental Food Program
- Community Development Block Grants
- Homeownership and Opportunity for People Everywhere (HOME) Grants
- Wastewater Construction and State Revolving Fund Program
- Highway Programs exempted from Highway Obligation Limitation
- Urban Discretionary Mass Transit Grants

The following discretionary programs will receive major decreases in funding compared to FFY 1992 levels:

- Low Income Home Energy Assistance Program
- HOME Investment Partnership Program
- Low Income Housing
- Highway Programs subject to Highway Obligation Limitation
- Mass Transit Formula Grants

The legislation assumes that mandatory entitlement programs will cost \$16.5 billion more than estimated FFY 1992 or a 13.1% increase. The Congressional action reflects the latest Administration estimates of Medicaid and Food Stamp expenditures, which is less than the Administration's original estimates.

CURRENT SITUATION - FEDERAL FUNDS INFORMATION

The Legislative Fiscal Bureau (LFB) has expanded efforts to monitor federal funding issues. Specifically, LFB staff:

- Review updates from FFIS and the State-Federal Relations Office, and write up significant items in the Fiscal Update.
- Contact State and federal officials and staff who can provide information concerning opportunities for increasing the amount of federal funding Iowa receives.
- Include additional detailed information concerning each federal grant received by a department in the budget forms distributed to appropriations subcommittees.
- Compile a list of applications for federal funding which departments have submitted.

The LFB continues to review ways to inform legislators and legislative staff concerning federal funding issues and opportunities.

ALTERNATIVES

The following changes in operations or policies have the potential to increase the amount of federal funding available to the State:

- Give departments an incentive to maximize federal funding. Currently, additional federal funding often results in a corresponding decrease in State funding and no net gain to department programs.
- Give departments encouragement to pursue federal fund maximization more aggressively. Aggressive accounting and billing practices may bring in more federal dollars but also increase the risk of disallowance and repayments in future years.
- Increase funding for efforts aimed at identifying and obtaining new federal funding. Staff in departmental administration units are spread thin, and have little time for additional activities. The State-Federal Relations Office in Washington, D.C. has a small staff, and their focus is on following pending legislation through the legislative process, not on opportunities for increased federal funding. Potential sources of information including computerized databases are not available to departments.
- Ease Department of Personnel regulations concerning project appointments. These employees currently have bumping rights when their federally funded project ends. Departments are reluctant to use project appointments that may jeopardize the jobs of new permanent employees.
- Require universities to provide research capacity to state agencies in order to facilitate qualification for federal funding. Many federal funding opportunities require a research component, which few departments currently have the capacity to directly provide.
- Require departments to annually report on efforts taken to maximize federal funding, including identification of changes in statute or policies/procedures that could allow additional federal funding.
- Designate personnel in each department receiving significant federal funds to work with Iowa's congressional delegation. These personnel would follow legislation (particularly reauthorization bills), talk with delegation members and staff concerning changes that

could help Iowa, and identify grant and waiver opportunities and assure that timely applications are made. The Department of Transportation currently has a

- staff person involved in these activities.
- Designate personnel to periodically audit the operational and fiscal policies of each department receiving significant federal funds to assess the extent to which federal funding -- both match and grant -- is being maximized.

Federal funding is dynamic and subject to frequent change. Priorities may change, and factors used by funding formulas are constantly being updated. Increased federal funding often results in program expansion or reduction in the amount of State appropriations. Any greater reliance upon federal funding increases the risk that the State may have to choose between reducing the level of service in popular programs or spending additional State dollars to replace lost federal funding.

BUDGET IMPACT

It is difficult to accurately project the amount of additional federal funding for which the State could potentially qualify, but it is likely that the amount would be substantial. Two examples help to illustrate the magnitude of the possibilities:

- The 1992 session of the General Assembly approved legislation that resulted in a substantial increase in the amount of disproportionate share funding received by the State. Disproportionate share is a method of reimbursing hospitals that treat a greater than average percentage of Medical Assistance patients. The tentative award amount is \$20.9 million in additional federal funding for patients treated at the University of Iowa Hospitals and Clinics. This funding is paid by the Federal government to the University of Iowa, and is then transferred to Department of Human Services (DHS) for the Medical Assistance Program. No significant changes in State policies or operations were required, and no additional State funding was needed.
- The FY 1994 DHS budget request includes a proposal to qualify child welfare services (such as Family-Centered, Preservation and Reunification Services, Treatment Family Foster Care, and Enhanced Residential Treatment) for Medical Assistance federal funding. This will draw down \$29.5 million in additional federal funding for child welfare. No significant changes in State policies or operations were required, and no additional State funding was needed.

Several of the alternatives identified above would involve additional State spending, although the potential additional federal funding could significantly exceed this amount.

STAFF CONTACT: Jon Neiderbach (Ext. 14613)